



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Paul Krutko

SUBJECT: See Below

DATE: August 23, 2006

Approved

Deanne Arthra

Date

8/24/06

COUNCIL DISTRICT: 7, 3
SNI AREA: N/A

SUBJECT: SUBMITTAL OF SAN JOSE'S ENTERPRISE ZONE FINAL APPLICATION TO THE STATE HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT (HCD) FOR A NEW ENTERPRISE ZONE DESIGNATION.

RECOMMENDATION

Adoption of a resolution:

1. Authorizing the City Manager to complete and submit the application for a new Enterprise Zone designation for 15 years and take any other action necessary to submit the Enterprise Zone application to the State Housing and Community Development Department.

OUTCOME

The State Housing and Community Development Department requires that cities applying for new Enterprise Zone designation submit a certified resolution with the final application. Approval of this recommendation will allow staff to comply with the requirements and submit a final application to the state for a new Enterprise Zone designation.

BACKGROUND

California currently has 42 Enterprise Zones. The San Jose Enterprise Zone was originally designated in 1986 for 15-years (see map exhibit A). San Jose received a 5-year program extension in 2001. Eighteen Enterprise Zones are scheduled to expire in 2006, including San Jose, which sunsets on December 31, 2006.

The State Housing and Community Development Department (HCD) have issued applications for 23 new California Enterprise Zone designations. To be considered for an Enterprise Zone designation, a city must complete an extensive application and document how their selected zone application area meets eligibility criteria, including high unemployment and above average poverty levels. The application process is competitive and cities will be ranked based on the number of economical distress factors present in their area. Only the top ranked cities will receive final designations.

ANALYSIS

The San Jose Enterprise Zone has been successful in attracting, retaining and creating thousands of jobs for local residents, especially for individuals with employment barriers. Enterprise Zone incentives include hiring tax credits, business equipment sales tax credits and other special tax deductions. Since the designation of the Enterprise Zone, San Jose has issued 10,065 tax credit vouchers to businesses as an incentive to create jobs and hire individuals qualified to participate in the program. Since the inception of the program, the estimated return on investment to the City and Enterprise Zone businesses is over \$45 million dollars.

Since 1986, the Enterprise Zone program has contributed to the revitalization of many distressed areas in the City. Due to its success, a few areas in the current Enterprise Zone no longer meet the state's eligibility criteria and will not be included in the application for consideration.

While some areas in the City have prospered from the program, other areas still need economic support. Staff has identified the Monterey Corridor and the Downtown as areas that can continue to benefit from the Enterprise Zone program (see proposed area EZ map exhibit B). Both areas have pockets of high unemployment and low household incomes. The areas are distressed by the State's definition and can meet the application eligibility requirements.

The Monterey Corridor and Downtown are important to San Jose's economy. Both areas have a high concentration of small minority owned businesses. Many businesses in the Monterey Corridor are suppliers to major Silicon Valley high tech firms and are still recovering from the last economic downturn. Several companies have restructured, or downsized or are at risk. If the City receives a new Enterprise designation, businesses will benefit from the incentives available under the State Enterprise Zone program.

PUBLIC OUTREACH

Staff has presented this information to various partners including, community based organizations, state and local employment and social service organizations and business associations. Staff has advised businesses currently participating in the program of the Enterprise Zone sunset date and will send out official notices in October as required by the State.

COORDINATION

This memorandum has been coordinated with the City's Legislative Office, Redevelopment Agency, Planning Department, *work² future* staff (formally known as SVWIN) and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

The designation of a new Enterprise Zone in San Jose will advance the priorities of the City's Economic Development Strategy and is aligned with the following Strategic Initiatives:

- #5. Support Start-up and Growth of Local Businesses, in Tech as well as Non-Tech Fields.
- #8 Diversify San José's Economic Base and Preserve/ Create Middle Class Jobs.

COST IMPLICATIONS

Based on data provided by the Franchise Tax Board in 2003 and the estimations of tax credit vouchers issued over the last five years, the amount of benefits realized in the San Jose was approximately \$45 million dollars over the last 10 years.

Approval of this recommendation will result in costs to administer the program. Since the beginning of the program in 1986, the cost of staffing and administration of the Enterprise Program is estimated at \$3.8 million dollars. It is anticipated that OED staffing levels (2.0 FTE) for program operations will remain the same for the next 15-year program designation.

The State requires a fee to fund the administration of the program. A \$10.00 fee is charged for each hiring tax credit voucher issued to businesses. A tax credit voucher can be worth up to \$39,000 over a 5-year period. During Fiscal Year 2004-05, the Council authorized the City Manager to allocated funds in the amount of \$25,000 to cover the cost of the fee for each voucher on behalf of San Jose businesses. It is anticipated the same amount of funding will be requested if the City receives a final Enterprise Zone designation.

The State requires Enterprise Zones cities to provide local economic development incentives and revitalization resources. Other costs associated with the Enterprise Zone program include local incentives.

The type of local incentives include:

- Assistance in targeting employee training, recruitment and placement services
- Permit streamlining
- Business technical assistance and training programs
- RDA related incentive and financing
- Capitol Improvement programs
- Business loans and financing.

BUDGET REFERENCE

N/A

CEQA

No EIR is required during the preliminary application process. However, the State will require an Environmental Impact Report (EIR) of the new designated area after the 23 Enterprise Zones are selected and granted conditional designation.

A handwritten signature in dark ink, appearing to read "Paul Krutko", with a long horizontal stroke extending to the right.

PAUL KRUTKO
Economic Development Director

CITY OF SAN JOSE

- ▶ ENTERPRISE ZONE
- ▶ COYOTE VALLEY CAMPUS INDUSTRIAL AREA
- ▶ INDUSTRIAL REDEVELOPMENT PROJECT AREAS



